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ABSTRACT

This study investigated communities in 10 randomly selected states to determine the extent to which Local Public Works (LPW) funds, which were disbursed according to procedures intended to benefit areas of unemployment and provide assistance for the chronically unemployed, were actually received in targeted low income or high minority areas. The Local Public Works program was established by Congressional legislation in 1976 to provide aid for public works projects that would generate jobs in municipalities with high levels of unemployment. An early study indicated that, contrary to the program's reputation for promoting affirmative action, the allocation of LPW funds tended to bypass areas with large concentrations of minorities. Analysis of the associations between the size of LPW grants and the proportion of blacks, per capita income, and number of unemployed in a community indicated that, generally, the program did benefit communities with large numbers of blacks and low per capita income. However, it was pointed out that many extremely needy communities may not have received funds and that persons hired were not often the chronically unemployed. It was suggested that programs of this kind indirectly benefit needy communities but cannot take the place of programs specifically designed for public sector employment. (Author/MJL)

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RACIAL AND INCOME CHARACTERISTICS OF COMMUNITIES RECEIVING LOCAL PUBLIC WORKS FUNDS

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RACIAL AND INCOME CHARACTERISTICS OF

COMMUNITIES RECEIVING

LOCAL PUBLIC WORKS FUNDS

In early 1977, Frank E. Steiner, a staff member of the Michigan Advisory Committee to the U. S. Commission on Civil Rights, released a study of the Local Public Works program in Michigan. The report, entitled "Racial Impact of December 1976 Federal Public Works Grants in Michigan: Initial Analysis and Further Questions," made some serious charges concerning the way that particular grant was being administered. Steiner charged that the Round I Local Public Works (LPW) grants made to municipalities in Michigan tended to bypass those communities which had a large percentage of black residents. When Steiner examined per capita LPW grants for sixty-seven Michigan jurisdictions which had received LPW funds, he found that the mean per capita funding was much lower for those jurisdictions with fewer than ten percent minority residents than for those jurisdictions with more than ten percent minority residents. Steiner attributed this problem in part to the LPW application process, which did not seek information concerning the proportion of minorities in the applicant area population; did not require information concerning the location of proposed LPW projects in relation to concentrations of minorities; and allowed jurisdictions to submit unemployment figures from broader areas than their jurisdictions, thus possibly enabling more well-to-do communities to out-rank needier communities. Furthermore, Steiner claimed that the fact that the money was distributed on a project application basis tended to benefit those areas with the staff and experience necessary in order to write good applications. Given these conditions, it is not surprising that Steiner found that high-minority jurisdictions in Michigan received the short end of LPW funds in the first round of funding which Steiner analyzed.

This finding was somewhat surprising, however, given the strong affirmative action reputation of the LPW program. The second round of funding for the program served as a testing ground for what was then a radically new concept: minority set-aside. Under the LPW minority set-aside provision, at least ten percent of each grant for local public works projects was to be spent with a minority business or contractor. This provision, later expanded to other federal programs, certainly implied that the Local Public Works program was pro-minority rather than discriminatory.

This paper is designed to explore the possibility that the LPW program, in spite of its affirmative provisions, benefited only certain types of communities. Analysis for this paper included examination of actual disbursement figures for ten states chosen at random, for a total of 1392 communities. Correlation analysis shows that, in spite of the fact that the Local Public Works program was not specifically targeted to low income or minority communities, the money did tend to benefit such communities. This suggests that rigid formulas are not necessary in order to assure approximate targeting. However, problems with the program suggest improvements that should be made -- when and if the government gets back into the business of providing economic development money.

THE PROGRAM

Congress passed legislation establishing the Local Public Works program in July of 1976, over the veto of President Ford. The purpose of the new Local Public Works program was to provide contercyclical aid to offset the recession of the mid 70s. Money could be used for repair and construction of water and sewer systems, street paving and repairs, bridge repair, and school construction, among other things. Congress placed the new program within the Economic Development Administration (EDA) of the Department of Commerce, and authorized two billion dollars for the program's first year (Round I) and

four billion dollars for its second year (Round II). Most disbursements for the program were completed by the end of the fiscal year 1980 (U.S. Department of Commerce, 1980). After this time, Congress did not renew the LPW program, which was a special, two-round, countercyclical "shot in the arm" for municipalities suffering from unemployment. Discussions were held in Congress in 1980 about possibly renewing the program, and the Carter administration indicated that its parent agency, the Economic Development Administration, was a favored locale for a new urban initiative; but when Reagan was elected President, his administration targeted the Economic Development Administration for elimination. Although Congress overrode the presidential proposal to immediately eliminate the agency and voted to provide funding through fiscal year 1982, the EDA will most likely receive no funds after that.

The purpose of examining the program can not be to focus on its specifics, therefore, but rather on the broader lessons to be learned from this type of approach. The characteristics of the program relevant to this analysis will consequently be discussed in the context of two key issues, which include (1) mechanisms used by program officials to target money to areas of unemployment, and (2) assistance provided by the program for the chronically unemployed.

The mechanisms for targeting were strongly influenced by Congress. As Congress originally enacted the program, seventy percent of the funds were to benefit areas with unemployment rates above the national average, and thirty percent were to benefit areas with unemployment below the national average. Typically, Congress also insured that all Congressional constituents would have a chance to benefit from the money by requiring that no state receive more than $250 million or less than $10 million.[1] Within these guidelines, EDA used a formula to determine each state's share of the money, with sixty-five percent determined by the number of unemployed in the state,

and thirty-five percent determined by the state's unemployment rate. Once an actual project application was received by the EDA, its "score" was determined by the area unemployment rate (25 percent); the number of unemployed in the project area (30 percent); the ratio of labor costs to total project costs (30 percent); and the per capita income of the applicant jurisdiction (15 percent). Bonus points could be awarded for several aspects of the proposed project, including the long-term project benefits (5 to 10 percent), the type of applicant (5 percent bonus for local government, 3 percent for others), and the relationship of the project to local plans (5 percent). (U. S. Department of Commerce, 1980).

In spite of the apparent formality of the above allocation process, closer examination reveals that it was in fact quite fluid. The total allocation due a state was fixed, but the so-called "scoring" process used to actually rate a particular project differed greatly from a formula in that EDA personnel were actually rating the project according to certain criteria. Those who doubt this point need only look at the nebulous bonus point system, which allowed a considerably amount of flexibility on the part of the EDA. To emphasize how flexible this process was, note that the "score" could actually add up to 120 percent, or twenty percent more than the unity.

Evidently the agency wanted to take no chances -- it wanted to be sure that the money would be used to primarily target unemployment. A project area would have a chance to compete for seventy percent of its state's funds if its unemployment were more than the national average; in addition, its application would be judged with a scoring system that, before bonus points, weighted employment issues as counting toward eighty-five percent of the project's score. Given this situation, one would expect that the actual disbursement patterns would correlate highly with unemployment data.

The second key issue relevant in understanding the program concerns whether or not it benefited the chronically unemployed. Surprisingly, given the strong emphasis upon unemployment data, the program probably did not benefit the chronically unemployed to a great degree. This fact is freely acknowledged in government documents. In a sample Urban and Community Impact Analysis distributed by the Office of Management and Budget in 1978, the analyst pointed out that the countercyclical Local Public Works program was formed to attack recessionary, not structural, unemployed. According to the author:

> In both good and bad economic conditions, women, minorities, and the young are disadvantaged economically. When unemployment becomes widespread, although unemployment levels for these groups go even higher than normal, the group that is most adversely affected, in a marginal sense, is white adult males. That is, at the margins, their rates of unemployment increase faster during recession than . . . minorities, youth, etc., because the latter are already suffering high unemployment. Thus, any countercyclical measures are likely to help someone, but that in itself may not be enough to target benefits to normally disadvantaged groups.[2] (Executive Office of the President, 1976.)

The author went on to claim that targeting toward areas of high unemployment would probably benefit minorities, but that the program had a marked bias toward new, capital intensive construction, which requires highly skilled workers.

Another important fact that should be considered is that official unemployment rates themselves do not reflect structural unemployment well. Because they are based only upon those defined as in the labor market, which means those who have sought work within the past six weeks, the statistics leave out discouraged workers and involuntary part-time workers. A large number of chronically unemployed workers have given up looking, and thus would be excluded from official unemployment rates (Gordon, 1977).

The Office of Management and Budget (OMB) has also noted that countercyclical public works programs have provided few jobs for the unskilled unemployed. In an executive report delivered to the 1980 Congressional Hearings,

the OMB noted that two factors caused the inability of such programs to assist the chronically unemployed: the low labor intensity of the projects, and the fact that such projects required construction industry skills. For example, the proportion of total project costs spent on construction wages in previous public works programs was about twenty-two percent, so that seventy-eight percent "operated simply as a fiscal stimulus."[3] Furthermore, LPW did not provide a substantial proportion of jobs to the unemployed; only twelve percent of those hired by LPW were unemployed prior to being hired. This is in great part due to the fact that the program required a large share of skilled workers; fully three-fourths of LPW workers were skilled. According to the report, "Studies show that the proportion of jobs going to the unemployed is directly related to the proportion of unskilled labor required by a public works project." In addition, the time a LPW project employee worked was, on the average, too short to be meaningful. The average time that a worker was employed under LPW was 3.5 weeks (Executive Office of the President, 1980: p. 81).

Given these characteristics of the program, it is appropriate to ask if independent analysis can show that the types of communities that received LPW funds had in fact low income or high minority chacteristics, even if the direct recipients of the program were not always the neediest. That is, since the program operated in OMB's term, as a "fiscal stimulus," did it at least stimulate needy areas?

RESEARCH METHODOLOGY

For this paper, the author chose a random sample of ten states, and collected information on each of the communities in those states which received Local Public Works funds in either Round I or Round II.[4] Further information was collected, from the 1970 Census of Population and Housing, on the population size of the recipient community, type of place, number of blacks, per capita

income, percent of population below the poverty line, and whether or not the community belonged to a Standard Metropolitan Statistical Area. This data, while outdated when the LPW program was enacted, was appropriate to use since the EDA used 1970 census data when examining per capita income. Also collected for this study were Department of Labor statistics for 1976 and 1977.[5]

Although the sample included a total of 1392 Round I and Round II LPW grants, or 100 percent for those ten states, information was not always available for the recipient communities, so that most analysis operated with a smaller sample. For example, the Bureau of Labor Statistics did not publish data for many of the smallest communities; neither did the Census Bureau. Presumedly in these cases EDA used estimates gained from the communities themselves or from a larger political jurisdiction.[6]

This study used correlation analysis to examine the relationship between total and per capita LPW funds, per capita income, population size, black population size, percent black population, and proportion of families below poverty for recipient communities. Analysis was conducted separately for Round I and Round II.

It is important to note that bivariate correlation analysis yields only a coefficent that shows the strength of relationships between any two variables at a time. Multivariate analysis, while useful, would probably violate the assumption of lack of interaction between the variables (multicollinearity) in this case.

RESULTS

The number of communities in the ten states that received grants in Round I was smaller than the number of communities that received Round II funds, reflecting the fact Round II was the larger portion of the program (see Table I). In its Final Report, the LPW administrators claimed that some

TABLE I

CHARACTERISTICS OF COMMUNITIES IN TEN STATES
RECEIVING LOCAL PUBLIC WORKS FUNDS

	Round I Average	Round II Average
Population	183,929	219,810
Number of Blacks	15,224	10,135
Percent of Blacks*	0.11	0.09
Per Capita Income	$2874.00	$3132.00
Percent of Population Below Poverty Line	0.10	0.09
Unemployment Rate (%)	7.96	8.29
Number of Unemployed	4570	4961
Total Number of Grants	296	1086
Percent of Grants in SMSA Location	42.2	32.6

*Refers only to areas where the project area was also the applicant community.

of the problems evident in the first round were improved in the second round, and that Round II communities were larger and had higher unemployment rates (U.S. Department of Commerce, 1980: pp. 6,7). This sample confirmed these findings to a certain degree: the average size in the sampled Round II communities, at 219,810, was larger than that of Round I communities, which averaged 183,292 people. Average unemployment rates collected for this study showed a slightly higher rate for Round II communities and a slightly higher number of unemployed (see Table II). But the percent of grants awarded for SMSA communities fell from 42.2 percent to 32.6 percent for this sample. Furthermore, the average number of black residents in a Round II recipient community plummeted from 15,224 to 10,135.

Correlations show, however, that a high interrelationship existed between such factors as race and unemployment. For example, using Round II data, the number of blacks and the number of unemployed were correlated by a coefficient of 0.78. The correlation between per capita income and unemployment figures, however, demonstrated the flaws in traditional unemployment data. Instead of a negative relationship, which one would expect if the number of unemployed declined as the per capita income rose, we found instead a positive correlation value of 0.31, showing that higher income per capita also meant higher unemployment rates. Furthermore, the percent of poor families below poverty level had a negative correlation value with the number of unemployed, although at -0.17 that was very mild, thus showing that the number of officially unemployed labor force participants declined as the percentage of extremely poor residents rose.

Table II illustrates the relationships between some of these variables and LPW allocations. Both total grant dollars and per capita grant dollars are shown because, conceptually, total dollars would have a stronger relationship with variables such as total population size or total number of blacks than

TABLE II

COEFFICIENTS OF CORRELATIONS BETWEEN LPW MONEY RECEIVED
AND SELECTED COMMUNITY CHARACTERISTICS
(sample size in parentheses)

	Round I		Round II	
	Total LPW Dollars	Per Capita LPW Grant	Total LPW Dollars	Per Capita LPW Grant
Population[@]	0.36 (258)	n.s.°	0.22 (955)	n.s.
Percent Black[@]	n.s.	0.62 (239)	n.s.	0.79 (811)
Number of Blacks[@]	0.64 (239)	n.s.	0.34 (878)	n.s.
Per Capita Income[@]	0.17 (140)	-0.32 (140)	n.s.	0.08* (456)
Number Unemployed	0.74 (79)	n.s.	0.43 (226)	-0.12* (225)

[@]This variable includes data from the applicant community unless the community was different from the project area, in which case project area figures were used.

*All correlations significant at the 0.05 level except those marked with an asterisk, which are significant at the 0.10 level.

°n.s. = not significant at the 0.10 level.

would per capita figures.[7] The data show a fairly strong relationship between a community's proportion of blacks and its per capita LPW grant. Likewise, the number of blacks is positively related to the total LPW grant, although this relationship is weaker for Round II, as the data from Table I foretold.

Although no significant LPW relationships were gleaned for the proportion of families below the poverty line, we do see a negative correlation between per capita income and per capita LPW grants. While this relationship is most unclear for Round II, in Round I the per capita LPW grant was inversely related to per capita income, which was appropriate.

Finally, for this sample, we do find a positive relationship between the number of unemployed and the total LPW grant, as would be expected. Note, however, that the sample size upon which this correlation is based is rather small.

Therefore, it appears that the LPW program did, on the whole, benefit communities with a large number of blacks and a low per capita income. In fact, the relationship between minority population and grant allocations was stronger than that of per capita income and grant allocations, even though per capita income was included in the "formula" or scoring system.

CONCLUSIONS

Although the analysis showed that the LPW program did benefit minority and low-income communities, the question remains if this benefit was sufficient to overcome other problems with the program.

First of all, the questions raised by Steiner concerning Round I LPW disbursement in Michigan were legitimate, and in fact some improvements were made in Round II. His criticisms, however, highlight the problems of administering categorical grants-in-aid -- how can fair targeting be insured when a wide amount of discretionary power rests with the administering agency? This analysis could find no significant relationship between chronic poverty

and LPW disbursements, and the relationship with per capita income was not of greatly negative proportions. The relationship between LPW grants and the characteristics of recipient communities can not reveal the specifics of who in those communities actually received money.

Federal economic development programs are necessary. In spite of apparent sentiments to the contrary in the Reagan administration, a place exists for federal involvement in economic development and public works expenditure. For one thing, no other source of revenues is sufficient to overcome the severe infrastructural inadequacies faced most especially by older industrial cities. For another, grants can surely be justified in terms of benefit spillovers or distribution of income. Since lower levels of government cannot easily impose progressive taxes, and residents tend to leave low-income areas for high-income areas, certainly a place exists for the federal government to compensate low-income areas (Gramlich, 1977).

At the 1980 Congressional Hearings on the issue, D.K. Patton, the chairman of the Legislation Committee of the National Council of Urban Economic Development, argued that Congress wrongly viewed public works programs as an expense rather than an investment. He pointed out that public works expenditures are actually decelerating, while the conditions of urban infrastructures cried out for accelerated expenditures. Arnold Cantor of the AFL-CIO Department of Research testified that many communities continued to suffer from chronic unemployment, high interest rates, economic downturns, and public works needs, and pleaded for countercyclical public works programs to help answer the needs (U.S. Congress, 1980: pp. 54, 49).

But do countercyclical public works programs benefit either the neediest communities or the neediest residents? To a certain extent they do, but while correlations reveal general trends, they do not reveal the possibility that many extremely needy communities did not receive any LPW funds (while perhaps

many not so needy did). The evidence also suggests that persons hired were not often the chronically unemployed.

The Local Public Works program had a number of assets. To negatively malign it would be unfair. In general, it did not seem to give undue proportions of money to communities with high per capita income, and it did disperse money to communities somewhat in relation to their percentage of minorities, although this last result was almost certainly an unplanned by-product of the focus upon unemployment. This type of categorical grant can provide an approximate kind of targeting. Most likely, however, formula grants insure more accurate targeting. Furthermore, this type of countercyclical program evidently does not assist in eliminating structural unemployment. Since the worst unemployment rates are suffered by those groups without skills or trades -- precisely those groups not helped by countercyclical public works -- perhaps it is better to focus unemployment efforts into programs that more directly target the chronically unemployed. The Local Public Works program is not the type of program that should be advocated in lieu of programs specifically designed for job training or public sector employment.

On the other hand, if Congress does choose to re-enact similar programs, they will most likely provide, at the least, indirect benefits for needy communities. At the most, they will help cities cope more effectively with a rapidly deteriorating infrastructure.

FOOTNOTES

[1]U.S. Department of Commerce, 1980. The unemployment rates of the thirty percent areas had to be no lower than 6.5 percent. This 30-70 area designation was eliminated in Round II, and the minimum state allocation raised.

[2]The unnamed author relies heavily on Georges Vernez, "Public Works as Counter-cyclical Fiscal Policy," April, 1977.

[3]Testimony by a number of other agencies and groups are recorded during these hearings.

[4]The states were Colorado, Hawaii, Indiana, Michigan, Montana, New Jersey, North Carolina, South Carolina, Utah, and Wyoming. Information concerning the amount of LPW funds received came from the U.S. Department of Commerce, EDA, 1977 Annual Report, and the EDA Directory of Approved Projects.

[5]Bureau of Labor Statistics, "State, County, and City Employment and Unemployment," microfiche.

[6]Data was collected, whenever possible, for both the applicant area and the project area, where these differed.

[7]This a priori notion is confirmed by the pattern of coefficients in the table showing which relationships were in fact not significant. Likewise, per capita LPW figures are more strongly associated with percentage and per capita income figures.

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